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PUBLIC UTILITIES COMMISSION OF THE STATE OF CALIFORNIA

**Telecommunications Division
Carrier Branch**

**RESOLUTION T-16863
February 24, 2005**

R E S O L U T I O N

Resolution T-16863. Verizon California, Inc. (U-1002-C) Requests Authority To Grandfather Its Foreign Exchange Service – Primary Service Residence, In Tariff Schedules Cal. P.U.C. Nos. A-19, Foreign Exchange Service, and K-5, Resale Services.

By Advice Letter No. 10901 - Filed July 8, 2004; and Advice Letter Supplement No. 10901A - Filed January 6, 2004; and Advice Letter Supplement No. 10901B - Filed January 11, 2005.

Summary

This Resolution approves Verizon California Inc.'s (Verizon) request to grandfather its Foreign Exchange Service – Primary Service Residence (Residence Foreign Exchange Service). This service is in Verizon's Tariff Schedules Cal. P.U.C. Nos. A-19 and K-5.

Verizon has deemed certain information in this resolution to be proprietary under G.O. 66-C and not for disclosure outside the Commission. The information deemed proprietary by Verizon has therefore been redacted in this public version of the draft resolution.

Background

By Advice Letter (AL) No. 10901, filed July 8, 2004, Verizon requests authority to grandfather its Foreign Exchange (FX) Service – Primary Service Residence. This service is in Verizon's Tariff Schedules Cal. P.U.C. Nos. A-19 and K-5 (Verizon's Resale [Wholesale] Services Tariff). In its advice letter filing, Verizon stated there were [REDACTED] existing subscribers who had used Residence FX Service in the past year, but in a subsequent response to staff's data request, it stated that there were actually [REDACTED] existing subscribers to this service. Verizon states that all existing

DRAFT

-REDACTED VERSION-

subscribers will be notified via Residence Bill Messages regarding Verizon's request to the Commission to grandfather this service. Verizon indicates that once their request to grandfather this service is approved, these existing subscribers would retain the service until they either move or change their service.

FX Service, a Category II service, is a network-provided service in which a telephone in a given local exchange area is connected, via a private line, to a central office in another, i.e., "foreign", exchange, rather than the local exchange area's central office. To call originators, it appears that the subscriber having the FX service is located in the FX area.

Verizon states that there are three types of Residence FX service: Intra-company FX at \$40.53 per month; Inter-company FX – Contiguous at \$32.88 per month and Inter-company FX – Non-Contiguous at \$57.38 per month. All types of FX service have a \$298.61 non-recurring (ordering) charge.

In its response to staff's data request, Verizon explained that FX is a service intended primarily for business subscribers. FX enables a business customer to have a local calling number in another exchange so that the business' customers think of the business as being "local" to them, and allows those customers to dial that business at a local rate instead of at toll rates. FX also allows a business to get its dial tone from another exchange, and to make calls in that exchange at local rates instead of at toll rates.

FX service allows residential subscribers to get their dial tone from another exchange, and to make calls in that same exchange at local rates instead of at higher toll rates. In the case of a Beverly Hill's FX, it would give callers the impression that the person called resides in Beverly Hills. Verizon states that this same benefit can also be achieved with their Remote Call Forwarding service.

Verizon indicates that FX was a viable alternative to paying toll charges for both business and residence customers when toll rates were high and there were few alternatives to obtain lower toll rates. Today, equal access toll competition, wireless technology, and the Internet have all helped to lower toll rates. Wireless was the first technology to introduce unlimited toll and long distance plans, and now Verizon, and almost every other major telecom carrier offer similar plans in a number of versions for wireline phones. Verizon maintains that Residence FX is no longer a good alternative to avoid high toll charges, as there are now many lower-priced alternative calling plans and Verizon now considers Residence FX service an outdated service. But for businesses that want a local telephone number presence in another exchange area, FX is still a practical alternative.

DRAFT
-REDACTED VERSION-

Verizon states its alternative calling plans to Residence FX are:

- Local Package, at \$30.95 per month.
- Regional Package Unlimited, at \$40 per month.
- Verizon Freedom, at \$59.95 per month (includes 4 custom features and unlimited Long Distance).
- Flat Residential Line and Unlimited ZUM Plan, at \$24.75 per month with a \$46 ordering charge.
- Flat Residential Line and Unlimited Toll Plan, at \$37.25 per month with a \$46 ordering charge.

Verizon explains that these calling plans provide residential customers with exchange service, easy to understand flat rate packages, and a variety of vertical feature options. In response to a data request, Verizon stated that as of July 2004, there were [REDACTED] resale subscribers to its residence FX service and that notice that this service will be grandfathered has been sent to these [REDACTED] resale subscribers.

On January 11, 2005, Verizon filed Advice Letter No. 10901B, in which it stated: “Verizon agrees to filing for a deviation from tariffs to provide Residential Foreign Exchange service if it should become necessary to provide basic exchange service to residential land-line applicants in the future.”

In Advice Letter No. 10901, Verizon originally requested authority to grandfather this service effective on October 18, 2004.

Notice/Protests

Verizon states that copies of the Advice Letter were mailed to twenty-five (25) interested utilities and/or parties. Notice of AL No. 10901 was published in the Commission Daily Calendar of July 16, 2004. Notice of Supplemental AL No. 10901A was published in the Commission Daily Calendar of January 12, 2005. Notice of Supplemental AL No. 10901B was published in the Commission Daily Calendar of January 14, 2005. No protests to these Advice Letters have been received.

Discussion

Additional information related to Verizon’s proposal to grandfather its Residence FX service is embedded in Verizon’s General Exchange Tariff; Section 3; Rules & Regulations; Definitions, which states:

“Frozen/ Grandfathered Service/ Service Limited to Existing Customers – The term “frozen/grandfathered service” applies to an obsolete and/or outdated service the Utility no longer wishes to

DRAFT

-REDACTED VERSION-

provide. The freezing/grandfathering of a service is the Utilities method of managing a tariff for this service prior to ultimately discontinuing the service, or change existing tariff regulations without discontinuing certain rights privileges or conditions of the service to existing customers.”

“Existing Customers – Customers or subscribers to a service at a specific point of time. Often used in reference to those customers of record at the time that a service is classified as frozen, grandfathered or limited to existing customers.”

In Verizon’s advice letter filing, and in subsequent responses to data requests sent by the Telecommunications Division (TD), Verizon states that:

- There are [REDACTED] existing subscribers who have used Residence FX Service in the past year.
- These existing subscribers were notified via Residence Bill Messages regarding Verizon’s request to the Commission to grandfather this service.
- These Residence Bill Messages first appeared on existing subscribers’ bills beginning on September 1, 2004, and continued until October 5, 2004. The Residence Bill Messages ran for one (1) complete billing cycle, which allowed all existing subscribers to receive a minimum of 30 days notice.
- Once its request to grandfather this service is approved, these existing subscribers would retain this service until they either move or change their service.
- As long as an existing subscriber does not cancel their Residence FX service, they will be able to retain their Residence FX service.
- As of July 2004, there were [REDACTED] resale subscribers to its Residence FX service and they have been noticed that this service will be grandfathered.
- Grandfathering of this service is being requested because today Residence FX Service is a product that is intended primarily for business subscribers. The primary benefits to business subscribers are to have a local calling number in another exchange so that the business’ customers think of the business as being local to them, to allow those customers to dial that business so that the customer pays the local rate instead of toll rates, and to allow the business to draw local dial tone from another exchange that would

DRAFT

-REDACTED VERSION-

normally be a toll call, so that the business pays the local rate instead of toll rates.

- Residence FX service allows residential subscribers to obtain dial tone from another exchange that would normally be a toll call, so that the customer pays the local rate instead of a toll rate, and in the case of a Beverly Hills Residence FX, it would give callers the impression that the person called resides in Beverly Hills.
- Those residential subscribers who desire calling area flexibility can choose from Verizon's alternative calling plans such as Local Package.
- Before equal access, toll competition, wireless technology, and the Internet, when toll rates were high and there were few alternatives to achieving lower toll rates, FX was a viable alternative to paying toll charges for both business and residence subscribers.
- Residence FX is no longer a good alternative to avoid high toll charges, as there are now many lower-priced alternatives and Verizon now considers Residence FX an outdated service. But for businesses that want a local telephone number presence in another exchange area, FX is still a practical alternative.
- The original requested effective date to grandfather this service was October 18, 2004.
- There are three types of Residence FX service: Intra-company FX at \$40.53 per month; Inter-company FX – Contiguous at \$32.88 per month and Inter-company FX – Non-Contiguous at \$57.38 per month. All subscribers to Residence FX service paid a non-recurring charge of \$298.61 at time of initial order.

In order to further clarify Verizon's supercedure rules, TD inquired in a data request whether subscribers with grandfathered residence FX service, could add additional services and features to their account, without these changes affecting their existing Residence FX service. On August 3, 2004 Verizon responded in an email stating that, "As long as the customer does not cancel their (residential) FX service and then try to order it again in the future, they will be okay." On January 12, 2005, Verizon further stated that, "If a (grandfathered residential FX) customer adds or subtracts other services to/from their accounts, that is a change to the customer's account not a "move, addition, or change" to FX service.

Verizon's alternative calling plans (to Residence FX) are:

DRAFT

-REDACTED VERSION-

- Local Package, at \$30.95 per month.
- Regional Package Unlimited, at \$40 per month.
- Verizon Freedom, at \$59.95 per month (includes 4 custom features and unlimited Long Distance).
- Flat Residential Line and Unlimited ZUM Plan, at \$24.75 per month with a \$46 ordering charge.
- Flat Residential Line and Unlimited Toll Plan, at \$37.25 per month with a \$46 ordering charge.

Verizon explains that the calling plans listed above provide residential subscribers with much more than local calling such as exchange service, easy to understand flat rate packages, and a variety of vertical feature options.

On December 17, 2004, TD staff met with Verizon representatives to discuss Verizon's request to grandfather its Residence FX service. TD staff has concerns that residence customers in some of Verizon 's/Contel's outlying areas can only be provisioned with basic local exchange service (i.e. dial tone) by Residence FX service.

As the carrier-of-last-resort (COLR), Verizon, the incumbent local exchange carrier (ILEC), has an obligation to provide dial tone service to customers in all of its serving areas. Currently, Residence FX service is the only way that Verizon can provision dial tone to customers in some parts of its serving areas.

If the Commission were to grandfather Residence FX service without any conditions on Verizon, this would mean that customers in those areas that currently can only receive basic local exchange service via FX from Verizon would not be able to receive basic service in the future. For example, if the current customer decided to move to a nearby area, which could only be served by Residence FX, they would not be able to receive dial tone. Furthermore, should an existing customer move out of a residence currently served by Residence FX service and a new customer moves into that same residence, there would be no means for Verizon to meet its COLR responsibility to provision dial tone service to this new customer unless certain conditions are established now in this resolution.

Verizon acknowledged that there are areas in its service territory in which Verizon CA, as the carrier of last resort, could only provide wireline service to their customers through Inter-company FX - Contiguous residential service.

TD staff's discussion with Verizon led to a commitment by Verizon to file a supplement to AL No. 10901 to request authority to deviate from the

DRAFT

-REDACTED VERSION-

grandfathering of Residence FX in situations in which Inter-company FX - contiguous residential service would be the only way to provide local wireline telephone service to certain customers in its service territory.

Verizon also indicated that another alternative, in a situation like this, would be to realign the boundary with SBC, with SBC's concurrence, so the customer(s) would then be provisioned local exchange service by SBC.

Verizon is requesting the grandfathering of its Residence FX Service from its A-19 Foreign Exchange Tariff, as well as from its K-5 Resale Services (Wholesale) Tariff.

On January 6, 2005, Verizon filed Advice Letter No. 10901A, in which Verizon stated: "Verizon agrees to *consider* filing for a deviation from tariffs should it be necessary to provide service to residential land-line applicants in the future." TD was not satisfied with this language and asked Verizon to amend and further clarify its intent and language.

On January 11, 2005, Verizon filed Advice Letter No. 10901B, in which Verizon states: "Verizon agrees to filing for a deviation from tariffs to provide Residential Foreign Exchange service if it should become necessary to provide basic exchange service to residential land-line applicants in the future."

TD finds that Verizon's commitment to carry out its COLR responsibility as stated in AL No. 10901B, to be satisfactory.

TD recommends that Verizon be authorized to grandfather its Residence FX Service for the following reasons:

- No protests were received in response to this Advice Letter filing by Verizon.
- All existing subscribers to Residence FX service have been notified that the service may be grandfathered.
- All existing subscribers will keep their Residence FX service until they either move or cancel the service.
- Existing residence subscribers will also be able to add or subtract other services and features to their account and still retain their FX service.
- Verizon will request authority from this Commission to deviate from the grandfathering of its Residence FX service if it should become necessary to

DRAFT

-REDACTED VERSION-

provide basic exchange service to residential landline applicants in the future.

- Verizon offers similar alternative calling plans which serve the same function, offer a variety of vertical feature options, have less or comparable monthly costs and have much lower non-recurring ordering costs.

Commission approval of TD's recommendations are based on the specifics of this Advice Letter and its associated tariff sheets, and does not establish a precedent for the contents of future filings or for Commission approval of similar requests.

In compliance with PU Code Section 311(g), this draft resolution was mailed on January 21, 2005 to the parties of record for public comment. Comments that are filed on a timely basis will be incorporated into the final resolution.

Verizon considers the number of customers, which subscribe to their services, to be proprietary and confidential and has requested that this information be redacted in all public versions of this resolution.

Findings

1. Verizon requests authority to grandfather its Residence FX Service as a tariffed offering.
2. Verizon is requesting the grandfathering of its Residence FX Service from its A-19 Foreign Exchange Tariff, as well as from its K-5 Resale (Wholesale) Services Tariff.
3. Verizon originally requested an effective date of October 18, 2004, in which to grandfather its Residence FX Service.
4. Verizon states there were [REDACTED] existing subscribers who used Residence FX Service during the past year.
5. Verizon states that Residence Bill Messages were included in these [REDACTED] existing subscribers' bills beginning on September 1, 2004, and continue until approximately October 5, 2004. All existing subscribers will receive a minimum of 30 days notice.
6. Once Verizon's request to grandfather this service is approved, these existing subscribers would retain their Residence FX service until they either move or cancel their service.

DRAFT

-REDACTED VERSION-

7. When asked if subscribers with grandfathered residence FX service could add services to their account, and still be able to retain their Residence FX service, Verizon responded in an August 3, 2004 email that, "As long as the customer does not cancel their (residential) FX service and then try to order it again in the future, they will be okay." On January 12, 2005, Verizon further stated that, "If a (grandfathered residential FX) customer adds or subtracts other services to/from their accounts, that is a change to the customer's account not a "move, addition, or change" to FX service.
8. In response to a data request, Verizon stated that as of July 2004, there were [REDACTED] resale subscribers to its Residence FX service and that notice that this service will be grandfathered has been sent to these [REDACTED] resale subscribers.
9. Verizon states that FX is a service that is intended primarily for business subscribers. The primary benefits to business subscribers are to have a local calling number in another exchange so that the business' customers think of the business as being local to them, and to allow those customers to dial that business so that the customer pays the local rate instead of toll rates, and to allow the business to draw local dial tone from another exchange that would normally be a toll call, so that the business pays the local rate instead of toll rates.
10. Residence FX service allows residential subscribers to obtain dial tone from another exchange that would normally be a toll call, so that the customer pays the local rate instead of a toll rate, and in the case of a Beverly Hills FX, it would give callers the impression that the person called resides in Beverly Hills.
11. Those residence subscribers who desire calling area flexibility can choose from Verizon's alternative calling plans such as Local Package.
12. Before equal access, toll competition, wireless technology, and the Internet, when toll rates were high and there were few alternatives to achieving lower toll rates, FX was a viable alternative to paying toll charges for both business and residence subscribers.
13. Verizon claims that Residence FX is no longer a good alternative to avoid high toll charges, as there are now many lower-priced alternative calling plans and Verizon now considers Residence FX an outdated service. But for businesses that want a local telephone number presence in another exchange area, FX is still a practical alternative.

DRAFT

-REDACTED VERSION-

14. Verizon states that there are three types of Residence FX service: Intra-company FX at \$40.53 per month; Inter-company FX – Contiguous at \$32.88 per month and Inter-company FX – Non-Contiguous at \$57.38 per month. All types of Residence FX service have a \$298.61 ordering charge.
15. Verizon's alternative calling plans (to Residence FX) are:
 - Local Package at \$30.95 per month.
 - Regional Package Unlimited at \$40 per month.
 - Verizon Freedom at \$59.95 per month (includes 4 custom features and unlimited Long Distance).
 - Flat Residential Line and Unlimited ZUM Plan at \$24.75 per month with a \$46 ordering charge.
 - Flat Residential Line and Unlimited Toll Plan at \$37.25 per month with a \$46 ordering charge.
16. Verizon explains that the above calling plans provide residential subscribers with much more than just local calling such as exchange service, easy to understand flat rate packages, and a variety of vertical feature options.
17. Verizon is the carrier of last resort for local basic exchange service (i.e. dial tone service) in the areas that it serves.
18. Verizon has filed an advice letter supplement (AL No. 10901B) informing TD that it will request authority from this Commission to deviate from the grandfathering of its Residence FX service if in the future it should become necessary to use FX service to provision basic exchange service to residential landline applicants.
19. Verizon considers the number of customers, which subscribe to their services, to be proprietary and confidential and has requested that this information be redacted in all public versions of this resolution.
20. Based on the reasons stated above by Verizon, TD recommends that Verizon be authorized to grandfather its Residence FX service.
21. We approve of TD's foregoing recommendations.

THEREFORE, IT IS ORDERED that:

1. Verizon is authorized to make tariff revisions to grandfather its Foreign Exchange Service – Primary Service Residence, as a tariffed offering contained in

DRAFT

-REDACTED VERSION-

Verizon's Advice Letter No. 10901, filed on July 8, 2004, as supplemented by Advice Letter No. 10901A and Advice Letter No. 10901B, which were filed on January 6, 2005 and January 11, 2005, respectively, to be effective on February 24, 2005.

2. Verizon's Advice Letter No. 10901, and accompanying tariff sheets and advice letter supplements, shall be marked to show that California Public Utilities Commission Resolution No. T-16863 authorized them, with an effective date of February 24, 2005.

3. Verizon, as the carrier-of- last resort, shall file a request for authority from this Commission to deviate from the grandfathering of its Residence FX service, in situations where Residence FX service is the only landline service alternative available in order to provision future applicants with basic exchange service, in its service territory.

4. Verizon shall allow subscribers with grandfathered residential FX service to add or remove other services and/or features to or from their accounts, with these changes having no effect on their existing FX service.

DRAFT
-REDACTED VERSION-

This Resolution is effective today.

I hereby certify that the Public Utilities Commission adopted this Resolution at its regular meeting on February 24, 2005. The following Commissioners approved it.

STEVE LARSON
Executive Director